

NATO SUMMARY - MAY 1986

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WEST GERMANY: GENERAL ECONOMIC DATA

Population (1985): 61.1 Million GDP (Purchaser's Value)/Capita: \$10,160

Total Output (Billion \$US - 1985 Exch Rate)	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985*</u>
GDP (Purchaser's Value - Current Prices)	543.5	568.3	593.7	621.0
GDP (Constant Prices - % Change by Year)	-1.0	1.5	2.7	2.4
Cost-of-Living Index (1980 = 100)	112	116	118	121

West Germany will enjoy a spurt of growth in 1986, to 4.0 percent from 2.4 percent last year. Some of the pickup in growth results from higher private consumption. 25X1

Disposable income will benefit from the first stage of 1986/88 personal income tax cuts, (about \$5 billion) and from real wage increases, as West German unions, for the time being, have dropped their goal of shorter working hours in favor of pay hikes. In addition, West German officials anticipate -- and we generally agree -- that the savings from cheaper oil -- which will be largely passed onto the consumer -- will boost GNP growth about one-half percentage point in 1986. Some of the pickup in growth in 1986 is statistical, however, some 1.7 percentage points result from the carry-over effect of accelerated growth at the end of 1985. Despite these favorable factors, we expect that the economy will begin to slow by mid-year, as DM appreciation cuts real export demand and reduced export earnings cause West German firms to reassess investment plans.

Unemployment, which soared during the 1981/82 recession and has not declined with recovery, will remain high. The seasonally-adjusted unemployment rate averaged 9.2 percent during the first quarter of this year, stuck at end 1985 levels. We expect the number of unemployed will decline only 50,000 to 60,000 this year, yielding an average 9.0 25X1

percent unemployment rate. Currency appreciation will help lower the inflation rate this year to about 0.8 percent, a postwar low. We estimate that cheaper oil will add about \$5 to \$7 billion this year to Bonn's current account surplus, which we expect to reach a record \$29 billion in 1986.

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 West German fiscal and monetary policy will remain directed towards reducing the government deficit and eradicating inflation. The Bundesbank plans to keep monetary growth in 1986 in the 3.5 to 5.5 percent range. The West Germans are resisting international pressures for additional cuts in central bank lending rates. The Finance Ministry has ruled out advancing the 1988 tax cuts, and major tax reform will not be debated until after next January's federal elections.

<u>TRADE AND PAYMENTS (Billion \$US, BOP Basis)</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985*</u>
Exports of Goods and Services	218.5	210.1	210.3	237.5
Imports of Goods and Services	203.7	195.4	193.2	207.2
Balance of Goods and Services	14.8	14.7	17.1	30.3
Current Account Balance	3.4	4.1	6.3	14.8
Long-Term Capital	-6.1	-3.2	-5.1	-1.3
Total Reserves Minus Gold (yearend)	44.8	42.7	40.1	44.4

*Estimated